Surface Transforms Plc

Registered number 03769702

Annual Report and
Financial Statements

for the year ended 31 May 2016

Contents

Highlights

- Significant, and continuing, progress with automotive Original Equipment Manufacturers (OEMs) on winning 'game changer' contracts, including signing a pre production contract with a major German automotive OEM.
- Continuing progress on the aerospace contract with production still expected to commence in early 2018.
- Successful equity placing raised £5.5m to finance the Company's expansion plans. Negotiations since completed on new 55,000 ft^2 factory in Knowsley, Liverpool, providing sufficient floor space for the production capacity of initially approximately 20,000 discs per annum.
- Revenues increased by £0.3m to £1.4m (2015: £1.1m).
- Sales to retrofit and near OEM customers increased by 33.3% to £557k (2015: £418k).
- Gross margin percentage increased to 51.6% (2015: 51.1%).
- EBITDA (including tax credits and excluding share based payments) loss of £640k (2015: loss of £584k).
- Increased research costs of £1,254k (2015:£933k).
- Loss before taxation of £1,154k (2015: loss of £982k).
- Loss per share at 1.44p (2015: loss per share of 1.65p).
- Cash used in operating activities increased by 62.6% to £909k (2015: £559k).
- Cash position as at 31 May 2016 of £4,777k (2015: £829k).

Chairman's Statement

The financial year ended 31 May 2016 has been transformative for Surface Transforms,

- improvement of the underlying financial performance – offset by increasing research costs;
- excellent, and continuing, progress on the "game changing" aerospace and automotive OEM contracts, including signing a pre-production contract with an internationally renowned German sports car manufacturer;
- completion of negotiations on a new factory site together with supporting local authority grants and interest free loans. Orders have been placed, and deposits paid, on the key items of new capital equipment to support an annual capacity of 20,000 discs which management anticipate would equate to sales of £17m per year and
- £5.5m placing and open offer which in part will finance this capital equipment.

Sales in the year rose by 28% to £1,362k (2015: £1,066k). This increase was primarily driven by an increase of 55% in sales to retrofit customers of £384k (2015: £247k) and a one-off increase of £142k in aerospace development revenues.

Whilst the loss for the year after tax rose to £848k (2015: £765k), this was largely attributable to increased research costs to £1,254k (2015: £933k) to support both the achievement of the German Automotive Industry standard (VDA 6.3) and the increasing activity on the "game changing" contracts, slightly offset by the subsequent increase in the R&D tax credit to £306k (2015: £217k), albeit this increase in "other income" was less than anticipated as the Company received approximately £100k less research grants than expected. The gross margin percentage and all other costs were broadly in line with the previous year.

However at this stage of the Company's development, the crucial issue is revenue growth. In this regard, the Company is pursuing both aerospace and automotive customer opportunities.

In aerospace the Company is still expecting to commence series production of a carbon ceramic brake disc package on a US military aeroplane in early 2018. We expect first financial year ("FY") revenues of £0.5m and future mature production sales of £1.3m. Testing has continued throughout the year with all objectives having been met. By contrast there has been little progress on the civil light aircraft opportunity, solely driven by resource constraints within our customer.

In the automotive market the Company is pursuing two parallel, complementary but in practice, different revenue strategies:

- in the short term, retrofit and "near OEM's" are important to both demonstrating real road mileage experience and reducing "cash burn". The Company fits retrofit products to road cars already in service replacing both iron discs and competitor discs. "Near OEMs" are defined as car assemblers who take existing models, pre-registration and customise them for higher performance and/or luxury, as well as companies who build very specialist vehicles. Individual "near OEM" sales volumes are typically between 10 and 200 cars per year;
- the longer term game changing OEM contracts on cars generally costing more than £50,000 where the model volumes (on which contracts are based) are typically between 500 and 5,000 cars per year. These potential customers are typically well known international brands.

In respect of the five main automotive manufacturers the Company is working on or is in discussions with:

OEM 1 (British) Start of production ("SOP") on this limited edition car had been expected to be in mid-2018, with first financial year ("FY") sales of £0.8m and a further £1.2m in the following FY. For reasons unconnected with Surface Transforms this performance car customer has extended the vehicle freeze date of the first model by six months but has stated that this will not impact the SOP of the car. Self evidently any delay in the SOP dates causes anxiety about the programme itself. At the very least it seems increasingly likely that the SOP will slip by six months and this is now the Company's planning assumption.

OEM 2 (British) SOP is currently scheduled for late 2020 with first FY sales of £0.7m and future mature production sales of £1.1m. This luxury car company continues to test, however it is a sister company of OEM 3 and is therefore waiting for the OEM 3 tests to finish before contractually committing to Surface Transforms. Nonetheless the size and weight of this vehicle is such that the superior heat dissipation characteristic of the Surface Transforms product is particularly relevant.

Chairman's Statement

OEM 3 (German) As recently announced, the Company has signed a pre-production technology development agreement with OEM 3. As part of this process the customer notified the Company that, after achievement of agreed technical and operational goals, they intend to introduce Surface Transforms onto a different, higher volume, model than previously discussed. This change of model impacts the forecast sales and cash profile. The SOP is now later than forecast (now September 2019) but the effect is a higher forecast of sales in FY 2017-18 (higher volume cars need more prototype parts), lower than forecast sales in 2018-19 (later SOP) but significantly higher sales thereafter. The details of these numbers are still in discussion but the Company's planning assumptions now include this change of model.

The significantly higher volumes of this different model have capacity implications in Q4 2019 that may require further investment to meet the needs of other customers (above the currently planned total 20,000 p.a. planned disc capacity). However no decisions on capacity to support other customers will be made without contractual customer commitment from OEM 3.

The testing process is arduous but progress is in line with management expectations and we expect a final decision, on this model, at the end of Q1 2017.

OEM 4 (German) SOP is currently scheduled for late 2020 with expected initial FY revenues of £1.8m and future mature production sales of £3.8m. As previously announced, this is a sister company to OEM 3 and therefore, the current testing required by OEM 3 should not need to be duplicated. OEM 4 sees all the test data from OEM 3.

It is not clear if the later SOP of OEM 3 will impact OEM 4 but our revised planning assumption is that this could well be the case.

OEM 5 (German) This Company is a competitor to OEMs 2, 3 and 4. SOP is currently scheduled for mid-2019 with expected initial FY revenues of £2.5m and future mature production sales of £2.6m. There has been an acceleration of activity with this customer who is both aware of their competitors' activities with Surface Transforms and seeking to ensure they get equality of resource allocation. No new issues have arisen from recent testing.

In support of these anticipated contract wins the Company is in the process of moving from its Ellesmere Port site to a new facility in Knowsley, Liverpool, and increasing floor space from 12,000 ft^2 to 55,000 ft^2. This new floor-space has a footprint which could accommodate machines with a capacity for 100,000 discs per annum. The Company is now in occupation of this site and the planned move is ahead of schedule. In the period to September 2016 the Company has also now ordered and paid deposits of £735k on the key items of plant totalling £2.9m which would support a capacity of 20,000 discs to be located in the new site. Local authority grants and interest free loans to the value of £500k have been negotiated, to be offset against the capital expenditure; the first instalment of the grant income has been received in the new financial year.

The German automotive companies have requested that the Company achieve the German automotive quality standard VDA 6.3 before issuing contracts – this project is well in hand and we expect to achieve this accreditation within the next six months and in advance of any contract award.

This capacity expansion has been financed by an equity cash raise of £5.5m and a loan to equity conversion of £400k. The Company would like to thank both existing and new shareholders for their support in this fundraising.

David Bundred
Chairman

7 October 2016

Strategic Report

Operational review and principal activity

Surface Transforms is a UK based developer and manufacturer of carbon ceramic products for the brakes market. In these industries our products are lightweight, extremely durable and highly refined. They offer better heat dissipation and material strength; resulting in superior wear life, improved brake pad wear life and weight reduction compared to our competitor's carbon ceramic products in the automotive industry and for the aerospace industry they offer weight reduction, improved brake performance and superior wear life.

Our strategy is to firstly manufacture and sell high quality engineered products into the automotive retrofit market and 'near OEM' market. Although these markets are relatively small it allows the Company to generate revenues/cash and importantly reduces the product and supplier risks for the main part of our strategy. The Company's primary focus is to work closely with major Tier 1 suppliers and OEMs and introduce our products into these large volume original equipment manufacturers (OEMs).

The key features of our business model are as follows:

- we engineer, develop and manufacture carbon ceramic brake products, which deliver high technical performance for the demand in luxury and performance brakes markets, which we estimate to be, ultimately, a £2 billion per annum market.
- our product technology offers highly desirable technical advantages over our competitors and our process technology offers a highly competitive low cost manufacturing route making our products price competitive with good margins.
- to sell a new disruptive product technology the risks need to be managed. These risks are addressed in partnership with Tier 1 system suppliers and OEMs and through adoption of our products in the retrofit and niche vehicle car manufacturers.
- we have an industry recognised high quality product that has been validated by our strategic partners/customers to support product adoption in the key 'game changing' volume markets.
- our quality management systems follow the automotive and aerospace quality standards (TS16949 and AS9100); and through continuous improvement we are developing our system to be compliant to the German automotive industry quality standard (VDA6.3) and;
- we are building a new advanced manufacturing plant with a capacity of approximately 20,000 disc/annum that becomes operational during 2018 that will then supply the large volume OEMs.

Our products are protected by a high level of intellectual property through a combination of patents and mainly Company process knowhow.

Delivering our objectives:

New product engineering and sales have expanded in the retrofit and niche vehicle markets. We continue to offer retrofit products for Porsches, Ferraris and Nissan GTR's. We have added three new kits to our Porsche range, three new kits for Ferrari 458 and 430 models and our first kit for Aston Martin V8 Vantage.

In addition our tactical objectives relating to the key automotive market differentiators are advancing well:

- **Product** – Engineering support to British OEM 1 continues albeit with delays to programme. Refinements have been introduced to delivery to German OEM 3 environmental requirements. Progress is good and is anticipated to meet the customer's requirements during the next financial year.
- **Quality** – We have maintained our automotive quality standard (TS16949) and aerospace quality standards (A9100) during the year and are focused on further improving our business and manufacturing systems to comply with the German automotive industry quality standard (VDA6.3). The Company has invested £200k towards this objective, is pleased with the progress made and is on track to become compliant within the next 6 months. These activities have also begun to yield significant improvements in the cost of manufacturing non-conformance. This has been very encouraging and has also confirmed that further significant improvements can be made during the next 12 months.

- **Supply chain security and manufacturing capability** – Our expansion plans are progressing well with the Company expecting to move from its current Ellesmere Port location to its new Knowsley factory before the end of 2016. The new factory has been designed using lean manufacturing techniques and will initially have three manufacturing cells. A small volume production cell which will continue to support our existing automotive customer and additional 'near OEM' customers. A series production cell which is being designed and built during 2017 and will supply the first large volume OEM customer model. An Aerospace cell which will supply our aerospace customer for their US military aircraft programme. The factory then has the floor space to support a further four similar sized series production cells to support future demand. In total the three manufacturing cells provide a capacity of 20,000 discs per annum, with the capability to expand the factory to a capacity of approximately 100,000 discs per annum.
- **Cost** – our cost reduction programme has now been fully incorporated into the series production cell process and is expected to achieve the target of reducing the cost to manufacture by over 40%. With the introduction of the series production cell we will then have completed the cost reduction programme to reduce the cost to manufacture by over 50%.

In terms of the manufacture and supply of aircraft brakes we continue our targeted strategy of working with an international aircraft brake system supplier on an exclusive basis. The two companies have continued to work together with the aircraft manufacturer and US Military to progress the qualification, certification and approval process. Progress has been made and is expected to continue during 2017 to commence series production in early 2018.

There has been a large amount of engineering work completed during the year to support the good progress made for both the OEM customers and the new factory. The demand for engineering time has increased further particularly in terms of the quality and manufacturing requirements for our automotive OEM customers. As part of the additional £200k investment previously mentioned we are increasing our engineering resources further. The expanded team will ensure the delivery of:

- The new factory in terms of design and building the manufacturing capability and
- Series production manufacturing cell meets our automotive OEM customer requirements, our cost to manufacture target and supply chain security plan.

By focusing the Company on these key medium and long term objectives the Company will have the manufacturing capacity to produce approximately 20,000 discs per annum.

Financial review

In the year ended 31 May 2016, revenues were £1.4m (2015: £1.1m). Gross margin improved during the year to 51.6% (2015: 51.1%) due to the sale of more products at a higher gross margin compared to prior year.

Losses after taxation increased by 10.8% to £848k (2015: £765k) due to additional costs in operational and engineering staff appropriate to continued investment and lower grant income, while being offset by increases in gross margin and income tax credit.

At 31 May 2016, inventory was £570k (2015: £317k). This increase was due in part due to an increase of work in progress, and higher volumes of finished product.

Net cash used in operating activities increased by 62.6% to £909k from £559k in the prior year, mainly due to increased losses after tax, offset by R&D tax credit received of £306k.

The Company had a cash balance of £4,777k at 31 May 2016 (2015: £829k).

Loss per share was 1.44 pence (2015: loss 1.65 pence).

Strategic Report

Key performance indicators

The Directors continue to monitor the business internally with a number of performance indicators: order intake, sales output, profitability, supply chain capacity, health and safety, quality and manufacturing cost of automotive discs. A set of business milestones is also updated and reviewed as part of the monthly board meeting.

The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor analysis performed above business performance going forward. These are detailed in the Financial Review above.

Management meetings are held on a weekly basis, all senior managers attend and discuss production, engineering, financial and quality issues.

Risks and uncertainties

As in previous years the principal risk faced by the Company is considered to be the speed at which our customers and potential customers adopt the new carbon ceramic product technology. Indications are that there is a strengthening desire from our strategic aerospace partner and from a number of volume automotive OEMs to incorporate the Company's product in their respective platforms. This risk is constantly assessed by regular customer review meetings.

The risks associated with designing and building of a new factory is being managed by a project team that has the experience and skills to deliver this type of project. Regular weekly and monthly reviews are held and the project's progress is communicated across the entire company on a regular basis.

In terms of uncertainties, product sales are expected to decline in the race markets but continue to grow in the retrofit and niche vehicle markets with an increasing number of distributors and niche vehicles. This uncertainty is constantly assessed by regular customer meetings and monitoring the level of enquiries and orders for both the Company's products and industry wide.

In addition, the Company faces the continued uncertainty created by the global economic and political climate. This changing landscape is constantly assessed and reviewed by both the management team and the board of directors.

In summary, the Company has seen significant progress in its automotive 'game changing' projects and is progressing well with its expansion plans. Further progress on automotive 'game changers' is expected during 2017 and 2018. Please refer to note 20 for information on financial risk management and exposure.

Directors and staff

We would like to thank all our colleagues, management and staff alike, for their hard work and dedication over the past year.

Outlook

The Company expects sales in the financial year 2016-17 to be flat when compared with FY 2015-16 and to also return to a historically more typical split between first half-year and second half-year sales than was seen in the current FY 2015-16. As a result the first half sales of FY 2016-17 will be below the first half sales of FY 2015-16 even if the sales for the year are unchanged.

We expect the factory move to be complete by the end of the calendar year, ahead of schedule.

However this overall picture masks considerable change between customer groups;

- The first half of the FY 2015-16 included "catch up sales" following a furnace breakdown in May 2015. This "catch up" will not be repeated in FY 2016-17.
- The Company expects further growth from near OEM's.

Strategic Report

- The Company continues to expect growth in the retrofit market albeit at a lower rate than previously anticipated. The Company will sell retrofit kits that have already been engineered but has taken the decision to focus scarce engineering resource onto the "game changers" OEM's, therefore no new kits will be introduced thereby restricting coverage of this, smaller, market.
- The Company currently sells into the race market via another company. We anticipate that sales will fall significantly with this customer in the forthcoming year.
- Development revenues related to aerospace qualification/certification will reduce significantly until we begin series supply in early 2018.

Development costs will continue at the current higher level but not increase against the FY 2015-16 levels.

The projected loss for the financial year 2016-17 (the year the grants and loans in support of capital equipment are received) will be increased by approximately £300k when compared with previous projections as whilst the Company will be recognising this as "other income", it will be recognised in the income statement on a systematic basis over the expected useful life of the asset funded. There is no impact on cash, and the change in future years, by comparison with previous forecasts, is minimal.

Thereafter the Board is confident of delivering substantial sales growth and expects to make further announcements during the year. As noted above when the current capacity expansion programme is complete, in 2018, the Company will have capacity for 20,000 discs facilitating overall sales of approximately £17m. The prospects pipeline significantly exceeds this number and the current planning assumption is that the Company would need to further increase capacity in Q4 2019. There is a two year planning, furnace manufacturing and customer quality approval lead-time on capacity installation and therefore decisions may need to be taken at the end of the next calendar year. However no decisions will be taken without customer contractual commitments to fill the current capacity.

The Company's board and management is looking forward to the challenges and opportunities of the next few years with confidence and excitement.

David Bundred
Chairman

Kevin Johnson
Chief Executive

7 October 2016

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2016.

Directors and Directors' interests

The Directors who held office during the year and to the date of signature of the financial statements were as follows:

D Bundred* (Chairman)
Dr K Johnson (Chief Executive)
K D'Silva*
RD Gledhill*

*denotes non-executive Director.

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	% of issued share capital at end of year	**Number of £0.01 ordinary shares Interest at end of year**	**Interest at start of year**
K D'Silva	1.02%	920,818	826,203
RD Gledhill	13.12%	11,818,853	8,801,977
Dr K Johnson	0.14%	124,000	124,000
D Bundred	0.81%	733,341	560,747
	15.09%		

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them during the financial year, except as disclosed in the report on Directors' remuneration on pages 12 and 13.

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Substantial shareholders

In addition to the Directors' interests noted above, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 31 May 2016:

Registered holding	**Number of ordinary shares**	**% of issued share capital**
Hargreave Hale	16,644,670	18.48%
Unicorn Asset Management	9,375,000	10.41%
Maunby Investment Manager	3,297,211	3.66%
Barclays Wealth	2,847,773	3.16%

Directors' Report

Corporate governance

The Directors recognise the importance of sound corporate governance and confirm that although compliance with the UK Corporate Governance Code is not compulsory for AIM listed companies, the Company is following the guidelines of the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors) to the extent appropriate and practical for a Company of its nature and size.

The Board has appointed an Audit Committee whose primary role is to review the Company's interim and annual financial statements before submission to the Board for approval. The Board has also appointed a Remuneration Committee, which is responsible for reviewing executive remuneration and performance. The Remuneration Committee is made up of three non-executive Directors, David Bundred, Kevin D'Silva and Richard Gledhill. The Audit Committee is made up of the same three non-executive Directors. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 12 and 13.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £848k during the year however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and for at least 12 months from the date of signing the accounts. The detailed cash flow assumptions are based on the Company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. Revenues are expected to continue in the forthcoming year.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 and 4 and the Strategic report on pages 5 to 8. In addition, note 20 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Principal activity

The principal activity of the Company is to design, manufacture and sell carbon fibre components. The majority of the Company's staff are employed in research activities which are concentrated on the ongoing identification of new products and applications for carbon fibre reinforced ceramic friction and non-friction materials.

Result for the year and proposed dividend

The loss for the year after taxation amounted to £848k (2015: £765k). The Directors do not recommend the payment of a dividend (2015: £nil).

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' Report

Strategic report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the separate Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Auditor

RSM UK Audit LLP has indicated its willingness to continue in office. Ordinary resolutions to re-appoint RSM UK Audit LLP, whose name changed from Baker Tilly UK Audit LLP on 26 October 2015, as auditor and to authorise the directors to agree their audit fee, will be proposed at the forthcoming annual general meeting.

By order of the board

D Bundred
Chairman

7 October 2016

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Report on Directors' Remuneration

Policy on executive Directors' remuneration

The Remuneration Committee comprises of David Bundred, Kevin D'Silva and Richard Gledhill.

The Remuneration Committee is responsible for reviewing and determining the Company's policy on executive remuneration (including the grant of options under the Share Option Scheme). Executive remuneration packages are designed to ensure the Company's executive Directors and senior executives are fairly rewarded for their individual contributions to the Company.

Fees for non-executive Directors

The fees for non-executive Directors are determined by the Board. The non-executive Directors are not involved in the decisions about their own remuneration.

Directors' remuneration

Set out below is a summary of the fees and emoluments received by all Directors for the year or, where applicable, period of office:

	Salary £	Fees £	2016 £	Salary £	Fees £	2015 £
Executive directors						
Dr K Johnson	104,764	–	**104,764**	94,220	–	94,220
	104,764	–	**104,764**	94,220	–	94,220
Non-executive directors						
K D'Silva	16,550	–	**16,550**	16,550	–	16,550
R D Gledhill	–	18,000	**18,000**	–	18,000	18,000
D Bundred	–	27,000	**27,000**	–	27,000	27,000
	16,550	45,000	**61,550**	16,550	45,000	61,550
	121,314	45,000	**166,314**	110,770	45,000	155,770

With the exception of Dr K Johnson, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr K Johnson received £9,424 (2015: £9,424) in respect of pension contributions.

Directors' interests

Details of any contracts in which a Director has a material interest are disclosed in note 18.

None of the Directors received any remuneration or benefits under long term incentive schemes.

Report on Directors' Remuneration

Share options

The Company operates a share incentive scheme. All options are granted at the discretion of the Board. The number of options granted, date of grant, exercise price and exercise periods under the scheme are set out below.

None of the Directors exercised options during the year. Directors' options outstanding and the options which were granted, surrendered and expired during the year are as follows:

Director	Date of Grant	Holding on 1 June 2015	Granted during the year	Number of Share options expired, waived or lapsed	Holding on 31 May 2016	Exercise Price	Exercise Period	Expiry Date
Dr K Johnson	18/04/2007	100,000	–	–	**100,000**	£0.21	18/04/10-18/04/17	18/04/2017
Dr K Johnson	30/06/2008	288,000	–	–	**288,000**	£0.18	30/06/11-30/06/18	30/06/2018
Dr K Johnson	22/09/2008	481,707	–	–	**481,707**	£0.19	22/09/11-22/09/18	22/09/2018
Dr K Johnson	01/03/2010	345,000	–	–	**345,000**	£0.09	01/03/13-01/03/20	01/03/2020
Dr K Johnson	15/02/2012	330,000	–	–	**330,000**	£0.12	15/02/15-15/02/22	15/02/2022
KA D'Silva	17/04/2007	50,000	–	–	**50,000**	£0.21	17/04/10-17/04/17	17/04/2017
D Bundred	17/10/2011	100,000	–	–	**100,000**	£0.09	17/10/14-17/10/21	17/10/2021
D Bundred	17/10/2011	100,000	–	–	**100,000**	£0.09	17/10/14-17/10/21	17/10/2021
D Bundred	17/10/2011	100,000	–	–	**100,000**	£0.09	17/10/14-17/10/21	17/10/2021
Dr K Johnson	30/09/2015	–	600,000	–	**600,000**	£0.145	30/09/18-30/09/25	30/09/2025
D Bundred	02/10/2015	–	250,000	–	**250,000**	£0.155	02/10/18-02/10/25	02/10/2025
		1,894,707	850,000	–	**2,744,707**			

The market price of the shares at 31 May 2016 was 17.375 pence and during the year varied from 23.25 pence to 12.25 pence.

By order of the board

D Bundred
Chairman

7 October 2016

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Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and accounting estimates that are reasonable and prudent;

(c) state whether they have been prepared in accordance with IFRS as adopted by the EU;

(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Surface Transforms Plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SURFACE TRANSFORMS

Independent Auditor's Report

to the members of Surface Transforms Plc

We have audited the financial statements on pages 16 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RSM UK Audit LLP

Graham Bond FCA (Senior Statutory Auditor)
for and on behalf of RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor
20 Chapel Street
Liverpool L3 9AG

7 October 2016

Statement of Total Comprehensive Income

for the year ended 31 May 2016

	Note	2016 £'000	2015 £'000
Revenue	2	**1,362**	1,066
Cost of sales		**(659)**	(521)
Gross profit		**703**	545
Administrative expenses:			
Before research and development costs		**(654)**	(666)
Research and development costs		**(1,254)**	(933)
Total administrative expenses		**(1,908)**	(1,599)
Other operating income		**84**	114
Operating loss	3	**(1,121)**	(940)
Financial income	6	**2**	–
Financial expenses	7	**(35)**	(42)
Loss before tax		**(1,154)**	(982)
Taxation	8	**306**	217
Loss for the year after tax	16	**(848)**	(765)
Other comprehensive income		**–**	–
Total comprehensive loss for the year attributable to members		**(848)**	(765)
Loss per ordinary share			
Basic and diluted	19	**(1.44p)**	(1.65p)

All amounts relate to continuing activities.

The notes on pages 20 to 36 form part of these financial statements.

Statement of Financial Position
at 31 May 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Non-current assets					
Property, plant and equipment	9		**627**		483
Current assets					
Inventories	10	**570**		317	
Trade and other receivables	11	**939**		367	
Cash and cash equivalents		**4,777**		829	
			6,286		1,513
Total assets			**6,913**		1,996
Current liabilities					
Other interest bearing loans and borrowings	12	**(4)**		(9)	
Trade and other payables	13	**(936)**		(379)	
		(940)		(388)	
Non-current liabilities					
Other interest bearing loans and borrowings	12	**(16)**		(409)	
Total liabilities			**(956)**		(797)
Net assets			**5,957**		1,199
Equity					
Share capital	15		**901**		532
Share premium	16		**14,359**		9,186
Capital reserve	16		**464**		464
Retained loss	16		**(9,767)**		(8,983)
Total equity attributable to equity shareholders of the Company			**5,957**		1,199

These financial statements were approved by the board of Directors on 7 October 2016 and were signed on its behalf by:

D Bundred
Chairman

Dr K Johnson
Director

Company Registered Number 03769702

The notes on pages 20 to 36 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 May 2016

For the year to 31 May 2015

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2014	423	7,995	464	(8,242)	640
Comprehensive income for the year					
Loss for the year	–	–	–	(765)	(765)
Total comprehensive income for the year	–	–	–	(765)	(765)
Transactions with owners, recorded directly to equity					
Shares issued in the year	109	1,308	–	–	1,417
Cost of issue written off to share premium	–	(117)	–	–	(117)
Equity settled share based payment transactions	–	–	–	24	24
Total contributions by and distributions to the owners	109	1,191	–	24	1,324
Balance at 31 May 2015	**532**	**9,186**	**464**	**(8,983)**	**1,199**

For the year to 31 May 2016

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2015	532	9,186	464	(8,983)	1,199
Comprehensive income for the year					
Loss for the year	–	–	–	(848)	(848)
Total comprehensive income for the year	–	–	–	(848)	(848)
Transactions with owners, recorded directly to equity					
Shares issued in the year	369	5,531	–	–	5,900
Cost of issue written off to share premium	–	(358)	–	–	(358)
Equity settled share based payments	–	–	–	64	64
Total contributions by and distributions to the owners	369	5,173	–	64	5,606
Balance at 31 May 2016	**901**	**14,359**	**464**	**(9,767)**	**5,957**

The notes on pages 20 to 36 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 May 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Loss after tax for the year		**(848)**	(765)
Adjusted for:			
Profit on disposal of property, plant and equipment		**(16)**	–
Depreciation charge		**111**	115
Equity settled share-based payment expenses		**64**	24
Financial expense		**35**	42
Financial income		**(2)**	–
Taxation		**(306)**	(217)
		(962)	(801)
Changes in working capital			
(Increase) in inventories		**(253)**	(46)
(Increase)/decrease in trade and other receivables		**(572)**	87
Increase/(decrease) in trade and other payables		**572**	(16)
		(1,215)	(776)
Taxation received	8	**306**	217
Net cash used in operating activities		**(909)**	(559)
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	**(265)**	(12)
Proceeds from disposal of property, plant and equipment		**26**	–
Net cash used in investing activities		**(239)**	(12)
Cash flows from financing activities			
Proceeds from issue of share capital, net of expenses		**5,142**	1,300
Payment of finance lease liabilities		**(11)**	(9)
Interest paid	7	**(35)**	(42)
Net cash generated from financing activities		**5,096**	1,249
Net increase in cash and cash equivalents		**3,948**	678
Cash and cash equivalents at the beginning of the period		**829**	151
Cash and cash equivalents at the end of the period		**4,777**	829

The notes on pages 20 to 36 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 May 2016

1 Accounting policies

Surface Transforms Plc (the Company) is a Company incorporated and domiciled in the UK, functional currency being sterling. The financial statements have been presented in sterling and rounded to the nearest £'000. The registered office of business is Unit 4, Olympic Park, Ellesmere Port, Cheshire CH66 1ST.

Surface Transforms is a UK based developer and manufacturer of carbon ceramic products for the brakes market. Surface Transforms Plc has four dormant subsidiary companies that are excluded from these financial statements on the basis of materiality and that they do not currently trade. These are; ST Aerospace Ltd., ST Automotive Ceramic Ltd., ST Defence Ltd and ST Racing Ltd.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

The financial statements were approved by the board on 7 October 2016.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £848k during the year however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and at least 12 months from the date of signing the accounts. The detailed cash flow assumptions are based on the company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. Revenues are expected to continue in the forthcoming year.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 and 4 and the Strategic report on pages 5 to 8. In addition, note 20 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value is measured at grant date and spread over the period during which the employees and Directors become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

1 Accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Payments are accounted for as described below.

Depreciation is charged to the statement of total comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and machinery 12.5%-20% per annum
- Fixtures and fittings 15% per annum
- Leasehold improvements Over life of lease

Depreciation methods and useful lives are reviewed at each balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the balance sheet date, the gains or losses are included in the income statement.

Leases

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Government grants

Revenue grants are credited to the statement of total comprehensive income, and included within other operating income, deferred over the life of the asset to which it refers.

Post-retirement benefits

The Company does not operate a pension scheme, but does contribute to specific employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees personal pension schemes during the accounting year.

Reserves

Share capital

Incremental costs directly attributable to the issue of Ordinary shares.

Share premium

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital reserve

This reserve records the nominal value of shares repurchased by the company.

1 **Accounting policies** continued

Research and development expenditure

Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred. Expenditure arising from the Company's development is recognised only if all of the following conditions are met and an asset is created that can be identified:

- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Company has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Expenditure is only capitalised if there is a high probability by the customer for the programme to proceed to full scale commercial sales. This would normally be reflected in a firm purchase order and/or production contract, and a decision by their Board that the underlying car programme will go into production.

Where these criteria have not been achieved, development expenditure is recognised in the statement of total comprehensive income in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the purchase price is used. For work in progress, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes.

Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward.

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Research and development tax credits, which are typically received in the Autumn, are recognised on a cash received basis as a reduction in the current tax payable as this is when the tax credit is considered recoverable as the associated uncertainties have been eliminated.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Revenue

Revenue comprises income derived from the supply of carbon fibre materials during the course of the year. Revenue is recognised on transfer to the customer of significant risks and rewards of ownership, generally this will be when goods are despatched to the customer. Turnover excludes value added taxes.

Notes to the Financial Statements

1 Accounting policies continued

Critical accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not already apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions which have a significant risk of causing a material adjustment to carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment of property, plant and equipment

Property, plant and equipment are reviewed annually for impairment if events or changes in circumstances, such as changes in technology, indicate that the carrying amount of an asset is not recoverable. The directors judge that no impairment is required as the Company is still at the pre commercialisation phase of the technology exploitation.

Research and development expenditure

The Board considers the definitions of research and development costs as outlined in IAS 38: Intangible assets when determining the correct treatment of costs incurred. Where such expenditure is technically and commercially feasible, the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset it is treated as development expenditure and capitalised on the statement of financial position.

In considering whether an item of expenditure meets these criteria, the Board applies judgement. During the year all such expenditure has been expensed to the statement of total comprehensive income on the grounds that it relates to feasibility studies to identify new applications for the technology or methods of improving the production process. As the technical feasibility of this work is unknown at the time the costs are incurred, none meet the criteria for capitalisation during the current or previous year.

Deferred tax

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further information regarding the level of unrecognised deferred tax is included in note 14.

Going concern

Management judgement is applied at each reporting date in assessing the ongoing applicability of the going concern assumption and the current year's assessment of which has been included within the going concern section above.

Segmental reporting

The Board has reviewed the requirements of IFRS 8 "Operating Segments", including consideration of what results and information the Chief Executive (the Chief Operating Decision Maker) reviews regularly to assess performance and allocate resources, and concluded that all revenue falls under a single business segment.

The Directors consider the business does not have separate divisional segments as defined under IFRS 8. The Chief Executive assesses the commercial performance of the business based upon a single set of revenues, margins, operating costs and assets.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Notes to the Financial Statements

1 Accounting policies continued

Non-derivative financial instruments continued

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses.

Interest rate risk

The Company finances its operations through cash. Cash resources are invested to attract the highest rates for periods that do not limit access to these resources.

Liquidity risk

With regard to liquidity, the Company's policy has throughout the year been to ensure that the Company is able at all times to meet its financial liabilities as and when they fall due. Cash flow forecasting is undertaken on a monthly basis approved and board level and managed on a daily basis by the finance function.

Exchange rate risk

As the Company evolves exchange rate fluctuations could have an adverse effect on the Company's profitability or the price competitiveness of its services. There can be no assurance that the Company would be able to compensate or hedge against such adverse effects and therefore negative exchange rate movements could have a material adverse effect on the Company's business, prospects and financial performance.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 June 2016 and not early adopted

The IASB and IFRIC have issued the following standards and interpretations with effective dates as noted below:

Standard	Key requirements	Effective date
IFRS 9, Financial Instruments	The standard is the first standard issued as part of a wider project to replace IAS 39. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The classification depends on the entity's business model and the contractual cash flow characteristics of the instrument. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply	1 January 2018
IFRS 15, Revenue from Contracts with Customers	The standard specifies how and when a company will recognise revenue as well as requiring such entities to provider users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
IFRS 16, Leases	The standard requires lessees to recognise most leases on their balance sheets, regardless of the industry the entity operates within.	1 January 2019

The Directors are currently assessing the impact of the above standards on the financial performance of the Company however are unable to fully quantify the impact of the revised standards. There are no other IFRSs or IFRIC interpretations that are not yet fully effective that would be expected to have a material impact on the Company. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Notes to the Financial Statements

2 Segment reporting

Due to the start up nature of the business the Company is currently focussed on building revenue streams from a variety of different markets. As there is only one manufacturing facility, and as this has capacity above and beyond the current levels of trade, there is no requirement to allocate resources to or discriminate between specific markets or products. As a result the Company's chief operating decision maker, the Chief Executive, reviews performance information for the Company as a whole and does not allocate resources based on products or markets. In addition, all products manufactured by the Company are produced using similar processes. Having considered this information in conjunction with the requirements of IFRS 8, as at the reporting date the board of Directors have concluded that the Company has only one reportable segment that being the manufacture and sale of carbon fibre materials and the development of technologies associated with this.

The Company considers it offers product technology namely carbon fibre re-enforced ceramic material, which is machined into differing shapes depending on the intended purpose of the end user.

Revenue by geographical destination is analysed as follows:

	2016 £'000	2015 £'000
United Kingdom	**199**	164
Rest of Europe	**835**	838
United States of America	**313**	51
Rest of World	**15**	13
	1,362	1,066

3 Expenses and auditors remuneration

	2016 £'000	2015 £'000
Operating loss is stated		
after charging		
Profit on disposal of property, plant and equipment	**16**	–
Depreciation of property, plant and equipment	**111**	115
Research costs expensed as incurred	**1,254**	933
Rents payable under operating leases – land and buildings	**55**	55
Exchange losses	**2**	12
after crediting		
Government grants	**84**	114

Auditor's remuneration
Amounts receivable by auditors and their associates in respect of:

	2016 £'000	2015 £'000
Audit of these financial statements	**23**	18
All other services	**9**	12

Grants received comprise revenue grants from the Technology Strategy Board.

These are subject to making expenditure as stipulated in the grant applications and to audit of the claims. There are no unfulfilled conditions or contingencies associated with government assistance received.

Notes to the Financial Statements

4 Remuneration of Directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the year was £166,314 (2015: £155,770).

The amounts set out above include remuneration in respect of the highest paid director of £104,764 (2015: £94,220).

Pension contributions of £9,424 (2015: £9,424) were made to a money purchase scheme on behalf of one director, no other pension contributions were accruing by any other Director during either the current or prior year.

5 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2016	**2015**
Directors	**4**	4
Other employees	**25**	20
	29	24

The aggregate payroll costs of these persons were as follows:

	2016 £'000	**2015 £'000**
Wages and salaries	**1,006**	831
Social security costs	**97**	78
Other pension costs (see note 17)	**21**	27
Share based compensation	**64**	24
	1,188	960

6 Financial income

	2016 £'000	**2015 £'000**
Total bank interest	**2**	–

7 Financial expenses

	2016 £'000	**2015 £'000**
Total interest expense on financial liabilities measured at amortised cost	**35**	42

Notes to the Financial Statements

8 Taxation

	2016 £'000	2015 £'000
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	**(306)**	(217)
Total income tax credit	**(306)**	(217)

Details of the unrecognised deferred tax asset are included in note 14.

Factors affecting the tax credit for the current period

The current tax credit for the year is higher than the standard rate of corporation tax in the UK of 20.00% (2015: 20.83%). The differences are explained below:

	2016 £'000	2015 £'000
Reconciliation of effective tax rate		
Loss for the year	**(848)**	(765)
Total income tax credit	**(306)**	(217)
Loss excluding income tax	**(1,154)**	(982)
Current tax at average rate of 20.00% (2015: 20.83%)	**(231)**	(205)
Effects of:		
Non-deductible expenses	**13**	6
Change in unrecognised timing differences	**18**	11
Current year losses for which no deferred tax recognised	**200**	188
Adjustment in respect of prior years – R&D tax allowances	**(306)**	(217)
Income tax credit (see above)	**(306)**	(217)

Factors that may affect future tax charges

In the Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%.

Notes to the Financial Statements

9 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 31 May 2014	75	846	65	986
Additions	–	12	–	12
At 31 May 2015	75	858	65	998
Additions	10	231	24	265
Disposals	–	(38)	–	(38)
At 31 May 2016	**85**	**1,051**	**89**	**1,225**
Depreciation				
At 31 May 2014	52	293	55	400
Charge for year	7	101	7	115
At 31 May 2015	59	394	62	515
Charge for year	7	99	5	111
Disposals	–	(28)	–	(28)
At 31 May 2016	**66**	**465**	**67**	**598**
Net book value				
At 31 May 2014	23	553	10	586
At 31 May 2015	16	464	3	483
At 31 May 2016	**19**	**586**	**22**	**627**

At 31 May 2016 the net carrying amount of leased plant and machinery was £9,437 (2015:£20,972).

10 Inventories

	2016 £'000	2015 £'000
Raw materials and consumables	**47**	18
Work in progress	**408**	260
Finished goods	**115**	39
	570	317

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £607,009 (2015: £521,296).

11 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**346**	157
Other receivables	**173**	143
Prepayments and accrued income	**420**	67
	939	367

All receivables fall due within one year.

12 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 20.

	2016 £'000	2015 £'000
Current liabilities		
Finance lease liabilities	**4**	9
Non-current liabilities		
Government grants	**16**	–
Loans	**–**	400
Finance lease liabilities	**–**	9
	16	409

On the 5 April 2016 the company converted the loan facility of £400,000 from Group 14 Limited into ordinary shares.

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2016 £'000	Interest 2016 £'000	Present value of minimum lease payments 2016 £'000	Future minimum lease payments 2015 £'000	Interest 2015 £'000	Present value of minimum lease payments 2015 £'000
Less than one year	**5**	**1**	**4**	11	2	9
Between one and five years	**–**	**–**	**–**	11	2	9
	5	**1**	**4**	22	4	18

The finance lease is in relation to a motor vehicle being used as part of the research & development programme and is secured on the asset in question. The interest rate is at an annual rate of 8.5% payable over a period of 36 months.

13 Trade and other payables: amounts falling due within one year

	2016 £'000	2015 £'000
Trade payables	**761**	247
Taxation and social security	**28**	22
Accruals and deferred income	**147**	110
	936	379

14 Deferred tax

	2016 £'000	2015 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**5**	(3)
Tax losses	**(1,046)**	(846)
Unrecognised deferred tax asset	**(1,041)**	(849)

The elements of the deferred taxation are as follows:

The Company has an unrecognised deferred tax asset at 31 May 2016 of £1,041,000 (2015: £849,000) relating principally to tax losses which the Company can offset against future taxable profits from the same trade.

15 Called up share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
90,091,081 shares of £0.01 each (2015: 53,181,081 shares of £0.01 each)	**901**	532

In November 2015 the Company issued 35,000 as part of the employee share option scheme, and in April 2016 36,875,000 ordinary shares at £0.01 each at a price of 16p per share were issued. Of this number 2,500,000 were issued as part of the Group 14 loan conversion. Total issue costs incurred were £358k.

The Company operates a share incentive scheme for the benefit of the Directors and certain employees. All options are granted at the discretion of the Board. The scheme grants options to purchase ordinary shares of £0.01 each. No options were exercised in the period.

The options granted to Directors, date of grant and exercise price and exercise periods under the scheme are set out in the report on Directors' remuneration on pages 12 and 13. In addition to the Directors' share options, certain employees and former directors have been granted the following options:

Date of grant	Number of unexpired share options at year end	Exercise price	Exercise period
17/04/2007	180,000	£0.20	18/04/10-18/04/17
30/06/2008	180,200	£0.18	30/06/11-30/06/18
22/09/2008	353,766	£0.19	22/09/11-22/09/18
01/02/2010	110,000	£0.09	01/03/13-01/03/20
15/02/2012	106,696	£0.12	15/03/15-15/03/22
25/09/2014	440,753	£0.105	25/09/17-25/09/24
30/09/2015	1,030,000	£0.145	25/09/18-25/09/25
	2,401,415		

There are a total of 1,679,355 unexpired options held by employees, 722,060 unexpired options held by former directors and a total of 2,744,707 unexpired options held by Directors.

16 Share premium and reserves

	Share premium account £'000	Capital reserve £'000	Retained loss £'000
At 31 May 2014	7,995	464	(8,242)
Retained loss for the year	–	–	(765)
Share issue (net of expenses)	1,191	–	–
Equity settled share based payment transactions	–	–	24
At 31 May 2015	9,186	464	(8,983)
Retained loss for the year	–	–	(848)
Share issue (net of expenses)	5,173	–	–
Equity settled share based payment transactions	–	–	64
At 31 May 2016	**14,359**	**464**	**(9,767)**

17 Pension scheme

The Company contributes to specific employees' personal pension schemes. The pension charge for the year represents contributions payable by the Company to the schemes and amounted to £20,824 (2015: £26,849). During the year one director and several senior managers opted to enter into salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £11,576 of the pension contributions (2015: £17,076).

There were outstanding contributions of £12,055 (2015:£6,959) at the end of the financial year.

Notes to the Financial Statements

18 Related party disclosures

Transactions with key management personnel

Directors of the Company and their immediate relatives control 15.09% (2015; 19.38%) per cent of the voting shares of the Company. At present employees and Directors would hold 18.14% (2015; 25.60%) of the share capital, following the exercise of all outstanding share options.

The company considers key management personnel as defined in IAS 24 "Related party disclosures" to be the Directors of the company and key senior manager personnel and their remuneration is as follows:

	2016 £000	2015 £000
Wages and salaries	**436**	431
Social security costs	**45**	45
Pension costs	**19**	26
Share based payments	**58**	44
	558	546

Other related party transactions

On 5 April 2016, a loan facility of £400,000 provided by Group 14 Limited was converted into equity. Due to the presence of a common Board Director, Group 14 Limited is a related party of Surface Transforms Plc.

Transactions in the year:	2016 £000	2015 £000
Group 14 Limited		
Interest paid	**33**	40
Fees paid	**18**	18
	51	58
Balance payable		
Group 14 Limited loan payable	**–**	400

19 Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss for the financial year divided by the weighted average number of shares in issue during the year.

Losses and number of shares used in the calculations of loss per ordinary share are set out below:

Basic	2016	2015
Loss after tax (£)	**(848,724)**	(765,586)
Weighted average number of shares (No. of shares)	**58,944,086**	46,449,946
Loss per share (pence)	**(1.44p)**	(1.65p)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of options would have the effect of reducing the loss per ordinary share from continuing operations and is therefore anti-dilutive under the terms of IAS33.

20 Financial instruments

The Company's policies with regard to financial instruments are set out within note 1. The risks arising from the Company's financial assets and liabilities are set out below with the policies for their respective management.

Currency Risk

The Company transacts business in foreign currencies and therefore incurs some transaction risk.

The Company's exposure to foreign currency risk was as follows, this is based on the carrying amount for monetary financial instruments:

	31 May 2016			31 May 2015		
	US Dollar £'000	Euro £'000	Sterling £'000	US Dollar £'000	Euro £'000	Sterling £'000
Cash and cash equivalents	**27**	**17**	**4,733**	22	28	779
Trade receivables	**42**	**3**	**301**	3	100	54
Trade payables	**(78)**	**(36)**	**(647)**	(42)	(8)	(197)
Finance lease liabilities	**–**	**–**	**(4)**	–	–	(18)
Net exposure	**(9)**	**(16)**	**4,383**	(17)	120	618

	Average Rate		Reporting Date Spot Rate	
	2016	2015	2016	2015
US Dollar	**1.508**	1.538	**1.462**	1.528
Euro	**1.368**	1.404	**1.296**	1.390

Sensitivity Analysis

A ten percent strengthening of the pound against the US Dollar and the Euro at 31 May 2016 would have decreased profit by the amounts below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

	US Dollar £'000	Euro £'000
31 May 2016	**(1)**	**(1)**
31 May 2015	1	(11)

A ten percent weakening of the pound against the US Dollar and the Euro at 31 May 2016 would have an equal and opposite effect to the amounts shown above, on the basis all other variables remain constant.

Price Risk

The Company aims to minimise its exposure to supplier price increases and customer price decreases by offsetting reciprocal supplier and customer arrangements.

20 Financial instruments continued

Credit Risk

The Company operates a closely monitored collection policy.

The ageing of trade receivables at the reporting date was:

	31 May 2016 Gross £'000	31 May 2016 Impairment £'000	31 May 2016 Net £'000	31 May 2015 Gross £'000	31 May 2015 Impairment £'000	31 May 2015 Net £'000
Not past due	**309**	**–**	**309**	126	–	126
Past due 0 to 30 days	**(10)**	**–**	**(10)**	2	–	2
Past due 31 to 90 days	**63**	**(16)**	**47**	29	–	29
	362	**(16)**	**346**	157	–	157

There was an amount of £15,750 (2015: £nil) in the allowance for impairment in respect of trade receivables.

The average debtor days are 97 days (2015: 54 days), the average creditor days are 185 days (2015: 173 days).

Liquidity Risk

The Company's objective is to maintain a balance between continuity and flexibility of funding through the use of short term deposits.

The contractual maturity of all cash and cash equivalents, trade and other receivables at the current and preceding balance sheet date is within one year.

The contractual maturity of trade and other payables at the current and preceding balance sheet date is within three months.

The contractual maturity of finance lease and loan liabilities can be found in note 12.

Interest Rate Risk

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was:

	2016 £'000	2015 £'000
Fixed rate instruments:		
Finance lease liabilities	**4**	18
Floating rate instruments:		
Loan	**–**	400

Fair values of the Company's financial assets and liabilities

The table below analyses the Company's financial instruments:

	2016 £'000	2015 £'000
Financial assets:		
Cash and cash equivalents	**4,777**	829
Trade and other receivables	**519**	300
Total financial assets	**5,296**	1,129
Financial liabilities:		
Trade and other payables	**761**	247
Loans	**–**	400
Finance leases	**4**	18
Total financial liabilities	**765**	665

20 Financial instruments continued

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount, all cash and cash equivalents are repayable on demand.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and satisfy its debt as it falls due whilst also maximising opportunities to progress the development of the business. The capital structure of the Company consists of cash and cash equivalents and equity attributable to shareholders comprising issued capital. The key indicator of capital management performance used by management is the level of cash and cash equivalents available to the Company.

21 Commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2016 £'000	Land and buildings 2015 £'000
Within one year	**41**	55
In the second to fifth years inclusive	**–**	96
	41	151

Capital commitments as at 31 May 2016 were £nil (2015: £nil).

22 Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company.

Notes to the Financial Statements

23 Share based payments

Share Options

The number of options outstanding under the Company's share option scheme is as follows:

Number of Share Options – Ordinary Shares at 1p

Note	At 31 May 2015	Granted	Exercised	Lapsed	At 31 May 2016	Exercise price	Date from which exercisable	Expiry date
(a)	280,000	–	–	–	280,000	£0.21	18/04/2010	18/04/2017
(b)	50,000	–	–	–	50,000	£0.21	18/04/2010	18/04/2017
(a)	468,200	–	–	–	468,200	£0.18	30/06/2011	30/06/2018
(a)	610,035	–	–	–	610,035	£0.18	22/09/2015	22/09/2018
(b)	225,438	–	–	–	225,438	£0.19	22/09/2011	22/09/2018
(a)	145,000	–	–	–	145,000	£0.09	01/03/2015	01/03/2020
(b)	345,000	–	–	–	345,000	£0.09	01/03/2015	01/03/2020
(b)	100,000	–	(35,000)	–	65,000	£0.09	17/10/2015	17/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2015	17/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2015	17/10/2021
(a)	106,696	–	–	–	106,696	£0.12	15/02/2015	15/03/2022
(b)	330,000	–	–	–	330,000	£0.12	15/02/2015	15/03/2022
(a)	440,753	–	–	–	440,753	£0.105	25/09/2017	25/09/2024
(a)	–	1,630,000	–	–	1,630,000	£0.145	30/09/2018	30/09/2025
(b)	–	250,000	–	–	250,000	£0.155	02/10/2018	02/10/2025
Total	**3,301,122**	**1,880,000**	**(35,000)**	**–**	**5,146,122**			

(a) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions or performance criteria attached to these share options during the financial year. There are no performance conditions attached to these shares other than continued employment by the Company.

(b) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions or performance criteria attached to these share options during the financial year. There are no performance conditions attached to these shares other than continued employment by the Company.

There was no cost payable by the employees on the grant of any of the above options.

The option holder may only exercise their options during employment with the Company.

Notes to the Financial Statements

23 Share based payments continued

The movements of the EMI and unapproved share options outstanding are shown below:

	EMI Scheme		Unapproved Scheme	
	Number of awards	Weighted average exercise price £	Number of awards	Weighted average exercise price £
Outstanding at 31 May 2014	1,809,931	0.17	1,250,438	0.12
Granted	440,753	0.105	–	–
Forfeited & surrendered	(200,000)	–	–	–
Outstanding at 31 May 2015	2,050,684	0.135	1,250,438	0.12
Granted	1,880,000	0.146	–	–
Exercised	(35,000)	0.09	–	–
Outstanding at 31 May 2016	3,895,684	0.135	1,250,438	0.12
Range of exercise prices	9p to 21p		9p to 21p	

Weighted average remaining contractual life for the EMI Scheme is 9 years 4 months (2015: 7 years 9 months).

Weighted average remaining contractual life for the unapproved Scheme is 6 years 8 months (2015: 7 years 9 months).

There were 35,000 share options exercised during the year (2015: nil).

A charge of £64,204 (2015: £23,786) has been made in the statement of comprehensive income to spread the fair value of the options over the 3 year service obligations of those incentives.

Assumptions used in the valuation of share based options

In calculating the fair value of the share based payment arrangements the Company has used the Black Scholes method.

Weighted average assumptions	2016	2015
Fair value per share option	**9.1p**	6.6p
Share price on date of grant	**14.5p**	10.5p
Exercise price	**14.5p**	10.5p
Share options granted in the year – EMI scheme	**1,880,000**	440,753
Expected volatility	**100%**	100%
Exercise pattern (years)	**3-10 years uniformly**	3-10 years uniformly
Expected dividend yields	**0%**	0%
Risk free rate of return	**2%**	2%

The fair value of the share options is applied to the number of options that are expected to vest which takes into account the expected and actual forfeitures over the vesting period as a result of cessation of employment. Expected volatility was determined by assessing the Company's historic data and the market in which the Company operates.

Company Information and Advisers

Website	www.surfacetransforms.com
Registered Number	03769702
Directors	**David George Bundred** (Non-executive Chairman) **Dr Kevin Johnson** (Chief Executive) **Kevin D'Silva** (Non-executive Director) **Richard Douglas Gledhill** (Non-executive Director)
Company Secretary	**David Charles Allen**
Address	Unit 4 Olympic Park Poole Hall Road Ellesmere Port Cheshire CH66 1ST Tel: 0151 356 2141
Nominated Adviser and Joint Broker	**Cantor Fitzgerald Europe** One Churchill Place Canary Wharf London E14 5RB
Joint Broker	**finnCap** 60 New Broad Street London EC2M 1JJ
Auditors	**RSM UK Audit LLP** 20 Chapel Street Liverpool L3 9AG
Solicitors to the Company	**Gateley LLP** Ship Canal House 98 King Street Manchester M3 4WU
Bankers	**NatWest** Chester Branch 33 Eastgate Street Chester CH1 1LG
Registrars	**Capita Asset Services** The Registry 34 Beckenham Road Kent BR3 4TU

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the above named Company will be held at finnCap, 60 New Broad Street, London, EC2M 1JJ on Tuesday 29 November 2016 at 11.00am for the following purposes:

Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 May 2016 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-elect Kevin Alphonso D'Silva, who retires by rotation pursuant to article 113 of the articles of association of the Company and who, being eligible, offers himself for re-election as a Director.
3. To re-appoint RSM UK Audit LLP as auditors for the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

4. "THAT, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "**Act**"):

   - to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being altogether referred to as "**Relevant Securities**") up to an aggregate nominal value of £300,303 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company); and further
   - to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £300,303 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory,

   PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

Notice of Annual General Meeting

5. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

   "THAT, subject to and conditional upon the passing of the resolution numbered 4 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 4 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £90,091, representing approximately 10% of the current issued share capital of the Company,

   and shall expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

BY ORDER OF THE BOARD

David C Allen
Company Secretary

Date: 7 October 2016

Registered office:
Unit 4
Olympic Park
Poole Hall Road
Ellesmere Port
Cheshire CH66 1ST

Notice of Annual General Meeting

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the Company's Registrars, Capita Asset Services at PXS, Beckenham, Kent BR3 4TU by 11.00am on 27 November 2016. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.
3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his intention to revoke his proxy appointment and deposit it at the Company's Registrars, Capita Asset Services at PXS, Beckenham, Kent BR3 4TU by 11.00am on 27 November 2016.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so in relation to the meeting, and any adjournment(s) of that meeting, by utilising the procedures described in the CREST Manual. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's Agent, Capita Asset Services at PXS, Beckenham, Kent BR3 4TU (CREST Participant ID:RA10) by no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
5. Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation.
6. The right to vote at the meeting shall be determined by reference to the register of members of the company. Only those persons whose names are entered on the register of members of the Company at entitlement time and date close of business on 27 November 2016 shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

Explanatory Notes:

Resolution 4 – Directors' power to allot relevant securities

Under section 551 of the Act, relevant securities may only be issued with the consent of the shareholders, unless the shareholders pass a resolution generally authorising the directors to issue shares without further reference to the shareholders. This resolution authorises the general issue of shares up to an aggregate nominal value of £300,303, which is equal to 33.33% of the nominal value of the current ordinary share capital of the Company and a further issue of shares up to an aggregate nominal value of £300,303, which is equal to a further 33.33% of the nominal value of the current share capital of the Company for the purposes of fully pre-emptive rights issues. Such authorities will expire at the conclusion of the next annual general meeting of the Company or the date which is 6 months after the next accounting reference date of the Company (whichever is the earlier).

Resolution 5 – Disapplication of pre-emption rights on equity issues for cash

Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome. This resolution excludes that statutory procedure as far as rights issues are concerned. It also enables the directors to allot shares up to an aggregate nominal value of £90,091 which is equal to 10% of the nominal value of the current ordinary share capital of the Company, subject to resolution 5 (b) being passed. The directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied, the disapplication will expire on the conclusion of the next annual general meeting of the Company or on the date which is 15 months after the resolution being passed (whichever is the earlier).

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